

Northwest Youth Services

Financial Statements with
Independent Auditor's Report

Year Ended December 31, 2016
(with Summarized Comparative Totals
for Year Ended December 31, 2015)

Larson Gross 

Northwest Youth Services

Contents

	Page
Independent Auditor's Report	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Functional Expenses.....	5
Statement of Cash Flows	6
Notes to Financial Statements	7-13

Independent Auditor's Report

To the Board of Directors
Northwest Youth Services
Bellingham, WA

We have audited the accompanying financial statements of Northwest Youth Services as of December 31, 2016, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Youth Services as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter*Report on Summarized Comparative Information*

We have previously audited Northwest Youth Services' 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2017, on our consideration of Northwest Youth Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwest Youth Services' internal control over financial reporting and compliance.

Larson Gross PLLC

Bellingham, Washington
July 27, 2017

Northwest Youth Services

Statement of Financial Position

December 31, 2016

(With Summarized Comparative Totals for December 31, 2015)

	Assets	
	<u>2016</u>	<u>2015</u>
Current assets		
Cash	\$ 273,163	\$ 256,327
Grants receivable	151,081	151,317
Pledges receivable, net	235,527	119,811
Prepaid expenses	<u>29,228</u>	<u>23,378</u>
Total current assets	688,999	550,833
Long-term pledges receivable, net	63,100	97,427
Investment in assets held by Whatcom Community Foundation	13,829	12,393
Property and equipment, net	<u>921,795</u>	<u>979,696</u>
Total assets	<u>\$ 1,687,723</u>	<u>\$ 1,640,349</u>
	Liabilities and Net Assets	
Current liabilities		
Accounts payable	\$ 6,194	\$ 3,100
Accrued expenses	81,006	81,911
Deferred grant revenue	5,328	5,328
Line-of-credit	-	250
Current portion of notes payable	<u>12,000</u>	<u>11,000</u>
Total current liabilities	104,528	101,589
Notes payable, net of current portion	<u>377,877</u>	<u>425,754</u>
Total liabilities	482,405	527,343
Net assets		
Unrestricted	681,655	695,583
Temporarily restricted	509,834	417,423
Permanently restricted	<u>13,829</u>	<u>-</u>
Total net assets	<u>1,205,318</u>	<u>1,113,006</u>
Total liabilities and net assets	<u>\$ 1,687,723</u>	<u>\$ 1,640,349</u>

Northwest Youth Services

Statement of Activities

Year Ended December 31, 2016

(With Summarized Comparative Totals for Year Ended December 31, 2015)

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and other support					
Contributions - individuals, businesses, and organizations	\$ 264,811	\$ 174,220	\$ -	\$ 439,031	\$ 750,652
Contributions - capital campaign	-	223,282	-	223,282	-
In-kind contributions	64,773	-	-	64,773	47,382
Grants and contracts	1,527,064	14,906	-	1,541,970	1,414,809
Events and fundraising	111,645	-	-	111,645	77,129
Program service fees	3,578	-	-	3,578	11,002
Other	8,072	-	1,436	9,508	13,377
Assets released from restrictions	307,604	(319,997)	12,393	-	-
Total revenue and other support	2,287,547	92,411	13,829	2,393,787	2,314,351
Functional expenses					
Program services	1,891,429	-	-	1,891,429	1,823,631
Management and general	265,353	-	-	265,353	127,711
Fundraising	144,693	-	-	144,693	17,906
Total functional expenses	2,301,475	-	-	2,301,475	1,969,248
Change in net assets	(13,928)	92,411	13,829	92,312	345,103
Net assets - beginning of year	695,583	417,423	-	1,113,006	767,903
Net assets - end of year	\$ 681,655	\$ 509,834	\$ 13,829	\$ 1,205,318	\$ 1,113,006

Northwest Youth Services

Statement of Functional Expenses

Year Ended December 31, 2016

(With Summarized Comparative Totals for Year Ended December 31, 2015)

	2016			Total	2015 Total
	Program Services	Management and General	Fundraising		
Wages and benefits	\$ 1,343,239	\$ 194,905	\$ 106,806	\$ 1,644,950	\$ 1,354,705
Client	295,354	156	-	295,510	290,736
In-kinds	64,773	-	-	64,773	47,382
Depreciation	48,202	9,699	-	57,901	58,534
Supplies	26,387	3,254	364	30,005	26,708
Equipment and repairs	26,253	2,041	1,637	29,931	11,305
Professional fees	14,772	10,610	1,284	26,666	40,546
Conferences and training	15,230	10,719	452	26,401	29,631
Fundraising	14,239	6,109	-	20,348	12,481
Occupancy	-	-	19,782	19,782	14,951
Telephone	16,147	1,402	175	17,724	14,651
Interest	-	14,880	-	14,880	22,084
Insurance	8,322	4,261	924	13,507	12,977
Miscellaneous	18,511	7,317	13,269	39,097	32,557
	<u>\$ 1,891,429</u>	<u>\$ 265,353</u>	<u>\$ 144,693</u>	<u>\$ 2,301,475</u>	<u>\$ 1,969,248</u>

Northwest Youth Services

Statement of Cash Flows

Year Ended December 31, 2016

(With Summarized Comparative Totals for Year Ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 92,312	\$ 345,103
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net (appreciation) depreciation in investment in assets held by Whatcom Community Foundation	(1,436)	1,379
Depreciation	57,901	58,534
Capital campaign contributions restricted for long-term purposes	(223,282)	-
(Increase) decrease in assets		
Grants receivable	236	(35,315)
Pledges receivable	74,811	(217,238)
Prepaid expenses and other assets	(5,850)	(1,291)
Increase (decrease) in liabilities		
Accounts payable	3,094	(1,857)
Accrued expenses	(905)	28,382
Deferred grant revenue	-	5,328
	<u> </u>	<u> </u>
Net cash provided (used) by operating activities	(3,119)	183,025
Cash flows from financing activities		
Cash received from capital campaign contributions	67,082	-
Repayment of line-of-credit	(250)	(47,591)
Repayment of notes payable	(46,877)	(10,429)
	<u> </u>	<u> </u>
Net cash provided (used) by financing activities	19,955	(58,020)
Net increase in cash	16,836	125,005
Cash - beginning of year	<u>256,327</u>	<u>131,322</u>
Cash - end of year	<u>\$ 273,163</u>	<u>\$ 256,327</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 14,880</u>	<u>\$ 22,084</u>

Notes to Financial Statements

December 31, 2016 and 2015

Note 1 – Summary of Significant Accounting Policies

Organization – Northwest Youth Services (the Organization) is a Washington State nonprofit entity founded in 1976. The Organization’s mission is to collaborate with at-risk, runaway, and homeless youth to foster self-reliance. Housing programs, vocational opportunities, and outreach services are provided by the Organization in order to further their mission.

Basis of accounting – The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; accordingly, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of presentation – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net asset that are not subject to externally imposed restrictions.

Temporarily restricted net assets – Net assets subject to externally imposed stipulations that will be met either by actions of the Organization or the passage of time.

Permanently restricted net assets – Net assets subject to externally imposed stipulations that they be maintained in perpetuity.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e. the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the contributions are recognized.

Cash – Cash consists of cash held in bank accounts for statement of cash flow purposes. The Organization maintains its cash in bank accounts that may exceed federal insured limits at times during the year. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Grants receivable – Grants receivable are recorded at their net realizable value. Net realizable value is equal to the gross amount of receivables less an estimated allowance for doubtful accounts. Management of the Organization bases its estimates of doubtful accounts on several factors. These factors include the Organization’s prior experience collecting grants receivable, the aging of the grants receivable at year-end, and management’s appraisal of current economic conditions. Based on the above factors, management considers all grants receivable to be fully collectible and, therefore, has not made any allowance for uncollectibility.

Of the Organization’s total grants receivable at December 31, 2016 and 2015, 76% and 64% were due from four and three government agencies, respectively.

Notes to Financial Statements

December 31, 2016 and 2015

Note 1 – Summary of Significant Accounting Policies – (Continued)

Pledges receivable – Pledges receivable represent unconditional promises to give and are stated at their net realizable value. Conditional pledges are recognized when the conditions on which they depend are substantially met. Pledges extending beyond one year are initially recorded at fair value, and in arriving at fair value, management has discounted these contributions using donor-specific discount rates. Amortization of the fair value discounts is included in contribution revenue. In addition, pledges are recorded net of an allowance for uncollectible pledges. The allowance for uncollectible pledges is determined by management and management determined that no such allowance was required as of December 31, 2016, as all pledges are expected to be fully collectible.

Of the Organization's total pledges receivable at December 31, 2016 and 2015, 76% and 100% were due from four and two donors, respectively.

Investment in assets held by Whatcom Community Foundation – The Organization holds an interest in the future return on investments held by Whatcom Community Foundation (WCF). In accordance with generally accepted accounting principles, the Organization presents its investment balance as permanently restricted net assets. Distributions from the fund are paid to the Organization as requested by the Organization and approved by the WCF. Distributions are calculated by WCF as a discretionary percentage of the fair market value of the fund held by WCF. The balance of the fund held by WCF totaled \$13,829 and \$12,393 as of December 31, 2016 and 2015, respectively.

Property and equipment – The Organization capitalizes all property and equipment acquisitions in excess of \$2,500. Property and equipment are recorded at cost. Additions, improvements, or expenditures which add to productive capacity or extend the life of an asset are capitalized. Expenditures for repairs and maintenance are charged to operations as incurred. Depreciation is recorded using the straight-line method over estimated useful lives of the assets, which range from 5 to 39 years.

Contributions – The Organization recognizes donor contributions upon the earlier of receipt or when unconditionally promised. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

The Organization received 27% and 62% of its individual, business, and organization contributions from two and three donors during the years ended December 31, 2016 and 2015, respectively. The Organization began a capital campaign during 2016 and received 96% of its capital campaign contributions from five donors during the year ended December 31, 2016.

Donated goods and services – Donations of supplies, equipment, and other goods are recorded at fair value on the date of receipt. Donated services are recognized if services received (a) create or enhance nonfinancial assets or (b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not donated. Many volunteers have donated significant amounts of time to the Organization's activities. The services of these volunteers are not recorded in the accompanying financial statements as they do not meet the criteria for recognition under Accounting Standard Codification (ASC) 958-605-25-16, *Not-for-Profit Entities – Recognition of Contributed Services*.

Notes to Financial Statements

December 31, 2016 and 2015

Note 1 – Summary of Significant Accounting Policies – (Continued)

Grants and contracts – The Organization receives support from various federal, state, and local government agencies. Grant receipts are subject to restrictions on the use of funds placed by the grantor. The Organization administers these funds in accordance with grantor guidelines. Grant revenue under cost reimbursement arrangements is recognized as expenses are incurred. Amounts incurred but not yet reimbursed are reported as grants receivable. Amounts received, but not yet incurred are reported as deferred grant revenue.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on the functional basis in the accompanying statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Federal income tax – The Organization is a nonprofit entity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision of income tax is necessary. The tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative financial information – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Reclassifications – Certain reclassifications have been made to the prior year’s financial statements to conform to the current year’s presentation.

Subsequent events – In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 27, 2017, the date the financial statements were available to be issued.

Notes to Financial Statements

December 31, 2016 and 2015

Note 2 - Pledges Receivable

During 2016, the Organization commenced a capital campaign to raise funds for a collaboration project with The Opportunity Council (the Council), a nonprofit organization. The collaboration project is referred to as "22 North" and is expected to be finalized in 2018 and result in the Organization offering 20 studio apartments to young adults experiencing homelessness, and offer the wrap-around support needed to help these young adults meet their goals. As of December 31, 2016, the capital campaign has raised \$223,282, including unconditional pledges receivable. For further details about 22 North, refer to Note 10.

Pledges receivable consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Capital campaign pledges receivable outstanding	\$ 156,200	\$ -
Other pledges receivable outstanding	145,000	225,000
Less: Unamortized discount to fair value (at 2.61%)	<u>(2,573)</u>	<u>(7,762)</u>
Total pledges receivable, net	298,627	217,238
Less: Current portion of pledges receivable	<u>(235,527)</u>	<u>(119,811)</u>
Noncurrent portion of pledges receivable	<u>\$ 63,100</u>	<u>\$ 97,427</u>

Future expected payments on pledges receivable for the years ending December 31 are as follows:

2017	\$ 235,527
2018	<u>63,100</u>
	<u>\$ 298,627</u>

Note 3 - Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 644,127	\$ 644,127
Buildings	468,000	468,000
Land	192,000	192,000
Equipment	32,068	32,068
Vehicles	25,663	25,663
Computer software	<u>19,994</u>	<u>19,994</u>
	1,381,852	1,381,852
Less accumulated depreciation	<u>(460,057)</u>	<u>(402,156)</u>
	<u>\$ 921,795</u>	<u>\$ 979,696</u>

Depreciation expense totaled \$57,901 and \$58,534 for the years ended December 31, 2016 and 2015, respectively.

Notes to Financial Statements

December 31, 2016 and 2015

Note 4 - Line-of-Credit

The Organization has a line-of-credit with a bank for up to \$100,000. The line-of-credit is secured by assets of the Organization, and interest is payable monthly at the bank's prime rate plus 4% (resulting in a rate of 7.75% at December 31, 2016). Outstanding amounts totaled \$- and \$250 at December 31, 2016 and 2015, respectively.

Note 5 - Operating Leases

The Organization entered into an operating lease for additional office space commencing March 2016. The term of the lease runs through February 2019. Monthly payments range from \$1,100 to \$1,200 over the term of the lease.

The Organization leases additional properties, on behalf of the youth it serves, in Whatcom and Skagit Counties under operating lease agreements, including some that are on a month-to-month basis. Monthly payments range from \$650 to \$1,600 with the leases expiring between 2017 and 2018.

Rent expense under these leases totaled \$244,097 and \$216,921 for the years ended December 31, 2016 and 2015, respectively.

Future minimum annual lease payments for the years ending December 31 are as follows:

2017	\$ 150,000
2018	28,000
2019	<u>2,000</u>
	<u>\$ 180,000</u>

Note 6 - Long-Term Debt

The Organization has a zero percent interest deferred loan from the City of Bellingham totaling \$53,132 as of December 31, 2016 and 2015. The purpose of this loan was to fund the new addition on the building from which the Organization operates its services. The addition was completed in 2013. The loan requires the Organization to continue utilizing the building for the benefit of individuals meeting certain housing and urban development requirements and does not require repayment until such time as the Organization sells, transfers, or refinances the building or ceases to serve low or moderate income individuals. If the Organization were to move to a different facility and sell the building to another nonprofit agency, the loan could be assumed by that nonprofit agency.

Notes to Financial Statements

December 31, 2016 and 2015

Note 6 - Long-Term Debt - (Continued)

Long-term debt consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Note payable to Peoples Bank, payable \$2,248 per month, including interest at 4.25% through November 2017 and 6.25% through November 2027, the date of maturity, secured by property and equipment	\$ 336,745	\$ 383,622
Note payable to the City of Bellingham, interest and payments deferred until the property is sold, transferred, or refinanced or no longer providing benefits to low or moderate income persons	<u>53,132</u>	<u>53,132</u>
	389,877	436,754
Amount due within one year	<u>(12,000)</u>	<u>(11,000)</u>
	<u>\$ 377,877</u>	<u>\$ 425,754</u>

Future annual principal payments on long-term debt for the years ending December 31 are as follows:

2017	\$ 12,000
2018	7,000
2019	7,000
2020	8,000
2021	8,000
Thereafter	<u>347,877</u>
	<u>\$ 389,877</u>

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Capital Campaign - 22 North Project	\$ 223,282	\$ -
Time restricted	172,428	332,081
Positive Adolescent Development Program	45,361	30,195
Transitional Living Program	26,666	2,233
Vocational Program	17,191	2,300
Street Outreach Program	14,906	15,000
Queer Youth Program	10,000	13,023
Other	-	22,591
	<u>\$ 509,834</u>	<u>\$ 417,423</u>

Notes to Financial Statements

December 31, 2016 and 2015

Note 8 - Grants and Contracts

Grants and contracts revenue was received from the following sources during the years ended December 31:

	<u>2016</u>	<u>2015</u>
U.S. Department of Health and Human Services	\$ 564,528	\$ 591,060
U.S. Department of Housing and Urban Development	257,277	254,071
Whatcom County	254,953	221,170
Washington State Department of Commerce	167,008	74,340
City of Bellingham	131,643	158,045
United Way	80,700	79,474
Skagit County	32,942	36,649
Other nonprofit organizations	30,000	-
Other	22,919	-
	<u>\$ 1,541,970</u>	<u>\$ 1,414,809</u>

Note 9 - Pension Plan

The Organization has a SIMPLE IRA plan, which is a defined contribution retirement plan. Under this plan, the Organization will match employee voluntary contributions up to 3% of gross wages of eligible employees. Employees are eligible to participate and receive employer match contributions upon completion of one year of service. Employer match contributions totaled \$15,126 and \$12,094 during the years ended December 31, 2016 and 2015, respectively.

Note 10 - Subsequent Events

The Organization signed a purchase option agreement in February 2016 with the Council for land owned by the Organization located at 1020 North State Street. The Organization began a capital campaign in 2016 (see Note 2) to raise funds that it plans to loan to the Council, to be repaid over a 40-year term, in order to help fund the construction of a building on the land. Once completed, the planned collaboration will allow the Organization to lease space in the new building from the Council to provide services related to its exempt purpose. Management expects that the purchase option will be exercised in 2017, but it remains unexercised as of the date these financial statements were available to be issued. The agreement will terminate on March 31, 2019, if notice of intent is not received or if adequate funding is not obtained.

The Organization entered into a lease agreement in April 2017, with the City of Bellingham to lease premises in Bellingham, Washington to be utilized as a garden by the youth served by the Organization. The term of the lease extends through March 2020. So long as the Organization utilizes the premises for the restricted purpose, the City of Bellingham has agreed to provide the premises rent free.